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AAA

A National Program for Wheat

Adapted in the Division of Information from an address by Henry A. Wallace, Secretary of Agriculture, before a wheat meeting at Wichita, Kans., Tuesday, November 23, 1937

The middle-course program Secretary Wallace has in mind for wheat would consist of six main parts:

First, planning for that share in the world wheat market which will bring wheat farmers their maximum prosperity.

Second, the setting of acreage goals in line with needs of the soil and of the market here and abroad.

Third, protection against drought through an ever-normal granary, with reserve supplies of wheat stored on the farm or in elevators.

Fourth, crop insurance.

Fifth, retirement of submarginal land.

Sixth, price adjustment payments, to be financed from tariff-equalizing taxes.

The Bread Grain of the World

THROUGHOUT the centuries wheat has meant bread and bread has meant life. Wheat production and wheat marketing stand out among the most dramatic phases of our national activity. Wheat is produced in 2,600 of the 3,000 counties in the United States.

During the World War bread was the first need of all the armies. Our slogan was "Food will win the war." Wheat growing expanded beyond anything this country had yet seen. Section after section of prairie sod, that had been in grass since long before the days of Coronado, was broken for wheat.

But after the war, things were different. We had changed from a debtor to a creditor Nation. Europe had acquired a war fear that drove her peoples to raise much of their own wheat. Our growers were left with an overexpanded plant, which could be used to the full only while American loans kept a prop under foreign buying.

For 10 years the problem of wheat bedeviled growers and men in public life.—Producers first tried to solve it by cooperative marketing through farmers' elevators, terminal sales agencies, and wheat pools. Many important benefits came from cooperative marketing, but farmers decided eventually that the problem was too big for them, that they needed Government help. They worked out the McNary-Haugen plan, which received its first big push from western wheat growers and in its first draft was designed to help wheat more than any other crop. This plan was to make the tariff effective on wheat by segregating exports from the domestically consumed portion of the crop. After the McNary-Haugen bill had been twice vetoed by the President of the United States, wheat farmers had to be content with the Farm Board, set up under the Agricultural Marketing Act of 1929. The Farm Board's attempts to support prices of wheat failed as production and supplies mounted year by year. By 1932 the price of wheat had fallen to the lowest level since the time of Queen Elizabeth. Wheat producers were almost completely out of the market

31364°—37

for industrial goods. Thousands of wheat growers lost their farms. Some people said that we would have to forget about the world market for our wheat. They said that enough wheat producers would have to be starved out to shrink the industry back to a domestic basis.

The Nation rejected that doctrine 5 years ago and the Nation will reject it now. Out of the suffering of the depression years, the Agricultural Adjustment Act of 1933 was born. The wheat program in the United States was linked up with the world wheat agreement, signed by 9 producing and 17 consuming countries. These measures gave promise, for the first time since the war, of dealing with the chronic problem of the wheat surplus.

But about the time that they were adopted, the wheat picture changed once more. During the 15 years ending in 1932 the production of wheat in the United States had fallen below 800 million bushels only three times. It had gone above 900 million bushels four times. But, beginning with 1933, there were 4 successive years of short crops. Drought and rust did their work. If the yields and abandonment on the planted acreage had been normal, these four crops would have averaged 889 million bushels. Actually they averaged 582 million bushels—or 300 million bushels less each year than we might have expected from the acreage planted. For the first time since 1837, and for the second time since the signing of the Constitution, the United States became a net importer of wheat. World wheat supplies gradually grew smaller and world prices improved. With small supplies in this country, Chicago prices rose above Liverpool prices. Devaluation of the dollar also played a part. As a result of all these things the price of No. 2 Hard Winter Wheat at Chicago advanced from an average of 47 cents in November 1932 to $1.46 in April 1937.

With nature, temporarily at least, doing away with the surplus, the situation of wheat producers was much different.—Instead of having a lot of wheat to sell at a low price, farmers in the drought and rust areas had little or no wheat to sell and could not take advantage of the greatly improved price.

Also, with the advent of drought, wheat farmers in the Great Plains found they had a terrible new problem to contend with—dust storms. Suddenly, there was need not only to stabilize the production of wheat and the incomes of wheat growers, but to stabilize the soil itself. There was need to keep it from blowing away, across the Mississippi River and on to the Atlantic Ocean. The mistake of overplowing the plains country had brought a disastrous result.

The short crops and scant supplies of wheat prevented wheat producers from feeling the full effects of the Hoosac Mills decision of the Supreme Court in January 1936. And the Soil Conservation and Domestic Allotment Act, quickly passed by Congress to replace the broken parts of the old A. A. A., helped wheat farmers to adopt farming methods that would hold their soil in place.

The season of 1937 was the first in 5 years in which wheat weather was even moderately favorable. Wheat yields per acre came up to somewhere near average. That yield on a record-breaking acreage brought a big crop of wheat—nearly 900 million bushels. The big crop started to market at high prices because of unusual situations outside of the United States.

From January to April of this year the farm price of wheat had been above $1.20 a bushel or slightly above parity. But no sooner had this point been reached than prices began slipping down again. This year's big crop was 250 million bushels more than we need for domestic consumption. That put American growers back on the export market. The Chicago December future, which had been quoted at $1.31 last July 16, was down to 84 cents on November 8.

Now, as wheat growers look ahead, they are wondering what is going to happen to them. During the next few years on which end of the seesaw of weather and price are they going to find themselves?

In 1932, judging by the experience of the preceding 100 years, no one would have dreamed that there would be four short wheat crops in a row, averaging less than 600,000,000 bushels. The four short crops in a row did happen and therefore some day might happen again. But since the present year has brought us back nearly to the 900,000,000-bushel level, we have strong reason to think that perhaps the surplus wheat problem of the twenties and early thirties will return in full force.

The ups and downs of the wheat industry have been painful for the growers of wheat. They have been painful, too, for the millers and handlers of wheat, for the businessmen and workers depending on wheat growers' purchasing power, and for the consumers buying wheat flour and bread.

This variable character of the wheat industry can be put down as item No. 1 in listing the main aspects of the wheat problem.

No. 2 is the fact that human stomachs don't change in size.—When people have more money to spend most of them buy less wheat rather than more. They spend a bigger part of their money for livestock products, fruits, and vegetables. This is why economists say the demand for wheat is inelastic. For some years the per capita consumption of wheat has been slowly decreasing, as people's food habits have changed, though at the same time the increase in the population has partly offset the decline in per capita consumption. The point is that we cannot assume that no matter how much wheat is grown it will all get eaten by the American people if the price is only low enough. Experience has shown that, instead, an excess supply simply piles up and demoralizes the price. That low price for wheat doesn't help either the producer or the middleman or the consumer of bread. Actually it harms them all.

Factor No. 3 in the wheat problem is that present export markets will not take all the surplus wheat our farmers can produce in years of ordinary weather.

Our export markets dwindled after 1929 as our foreign loans ceased. Only one thing could have saved our export trade once we had stopped lending other countries the money to buy our wheat, and that was a change to a more liberal tariff policy. But instead of lower tariffs to encourage world trade, we were given higher tariffs that strangled world trade. The Smoot-Hawley Tariff Act of 1930 was the worst blow ever struck at the wheat farmers of the United States.

During the last 4 years, of course, weather has reduced our supply available for export. This year, with an exportable surplus on hand and with the Canadian and Argentine crops heavily damaged, we are again shipping wheat abroad. From the 1st of July to November 6 we exported about 22,000,000 bushels. At this rate exports for the year would total about 60,000,000 bushels. But it is possible that exports from this year's crop may total as much as 100,000,000 bushels.

Wheat exports this year are based on shortage in Canada and Argentina and on increased world demand resulting from the race to prepare for war. These conditions are abnormal and cannot be expected to continue long. If the United States is to have a dependable foreign outlet for wheat, it must be assured through revival of international trade that flows both ways. A start in this direction has been made through the reciprocal trade agreement program. If that program can be expanded, a part of our former markets abroad may be regained.

No. 4 in the list of things we must think about is the need to avoid soil destruction.—If growers fail to balance up the wheat acres with acres of cover crops, and fail to follow proper conservation practices, the soil will be permanently damaged.

No. 5 is the fact that considerable areas now planted to wheat are really submarginal, and should be retired from cultivation altogether.—The Government has already acquired some of this submarginal wheat land, but much still is being used.

No. 6 is the fact that five different kinds of wheat are grown in different areas of the United States.—The regions producing these five kinds of wheat have some problems in common, but there are important differences between them which must be recognized in mapping out a national policy for wheat.

No. 7 on the list of things we must face is the great expansion in wheat acreage that has taken place.—In 1937 farmers seeded 81 million acres, whereas with average yields only about 60 million acres are needed to fill our domestic requirements and present export outlets. The prospect now is that, including the wheat already in the ground, the acreage to be seeded to wheat for harvest in 1938 will be as great as it was in 1937. With average yields this will mean a crop of close to a billion bushels, or 350 million bushels more than enough to fill our domestic needs.

The agricultural conservation program of the last 2 years has included wheat among the list of 15 soil-depleting crops from which acreage might be diverted for payment. But no special base or goal has been included for wheat, and none is included in the 1938 program.

The current wheat acreage—the largest in the history of the country—seems to be a response to the favorable wheat price. Further recession in the price might be expected to cause the wheat acreage to shrink somewhat. But experience during the depression showed that even 30-cent wheat did not squeeze out very many of the marginal producers.

The important point is that wheat acreage is at a level that with ordinary weather will give us crops far above both what we need for use at home and what we have been selling abroad.

That completes my brief summary of the wheat problem. Now what should be our aims in working out a future policy for wheat?

The main objectives ought to be, first, to conserve the soil; second, to maintain growers' income; and third, to assure adequate supplies for consumers.

It is easy to agree on those fundamental aims. But there may be difference of opinion as to the path to be followed to reach them.

As with cotton, there are two schools of thought about wheat. They stand at opposite extremes. One school of thought would lay emphasis on price regardless of how small production would have to be to get that price. People holding this view would say good-bye to exports and definitely aim to produce only enough wheat for the domestic market. Following such a course would involve severe acreage adjustment and perhaps high loans. Drastic marketing quotas universally applied in the main wheat-growing areas would be necessary year after year.

Another school of thought, at the opposite extreme, would encourage unlimited production of wheat, through an export bounty or through unconditional payments to producers.

On a purely theoretical basis, a plausible case for either one of these extreme courses might be made. Going to an extreme nationalistic basis might, on paper, seem to yield as much gross income for wheat as could be realized in any other way. So far, the wheat growers have not shown any inclination to follow this path. Regardless of the theoretical advantages of reducing wheat production to domestic needs, the wheat growers this year by planting 80 million acres to wheat have in actual fact put their industry on an export basis with a vengeance.

It is true that hard red spring wheat usually is nearly all milled in this country. But if wheat went on a domestic basis, farmers in the hard spring wheat region would be affected, too. The two hard wheat regions are closely related. Hard winter wheat is the kind that is usually exported, it is true. But the export of hard winter wheat affects the price of spring wheat as well. The producers of hard spring wheat cannot expand their production without increasing the pressure from all the western wheat regions for larger outlets abroad.

Wheat is wheat, and the fortunes of the different groups of wheat farmers rise and fall together. No region can hope to share in the benefits of any wheat program without sharing its burdens, too.

The control that would be needed to cut acreage from 80 million down to 55 million acres or less would be far more rigid than anything wheat producers have ever thought about.—Unless wheat growers should drastically change their whole point of view, it is doubtful that such control could be made to work.

The case for the subsidy of unlimited production is also superficially plausible. But, with world trade conditions what they are, if American wheat were dumped on the world market other countries would simply raise trade barriers to the point where we could not scale them. It is true that in 1933 the A. A. A. made an exception of Northwest Pacific wheat and used an export subsidy to take care of the very large part of that wheat that needed export markets. But if put into general use for all wheats, the export subsidy plan would prove in the end to be a severe handicap to our efforts to reopen this country's foreign markets for wheat. Supplies in this country would pile up, and prices would collapse. Under such circumstances prices might even go lower than in 1932.

The majority of wheat producers probably would not choose either one of these extremes. As they think things through, they likely will choose a middle course somewhat similar to the one already recommended for the Nation's other great export crop—cotton.

As to the first point of a middle-course program for wheat—keeping our share of the world trade in wheat—all farmers once more should consider that if the producers of the great export crops, especially wheat and cotton, lose their remaining markets abroad, agriculture will have to prepare itself for a degree of control and adjustment far greater than farmers have thought about thus far.

Just as this country asks for its share of the world wheat trade, so it is willing to share with other countries the burden of any necessary adjustment of production. The United States alone cannot and should not bear the entire burden of readjusting world wheat production to world wheat demands.

When the A. A. A. wheat program was first started, all the other important wheat-producing and wheat-consuming countries agreed to work with us, through the World Wheat Agreement, to adjust world acreage and exports to the needs of the market. The succession of disastrously short crops after 1932 made such action unnecessary for the time being. While the principal wheat nations have continued to talk over the wheat situation from time to time at meetings of the International Wheat Advisory Committee, the action phases of the agreement were not continued. Now, we seem to be moving into a period when, with normal weather and yields, world wheat supplies may again become excessive. Should such conditions develop, other wheat-growing nations likely will again recognize the need for concerted action to deal with the problem. Meanwhile, with our present acreage and normal weather, the United States will very definitely be a substantial exporter of wheat.

The second part of the program, acreage goals for wheat, could be carried out under the present Soil Conservation Act, but additional legislation is needed to make the goals fully effective.

The goals probably should be varied in the different wheat regions, according to the needs of the soil and of the market. Fairness would require that amounts paid to farmers vary according to the extent of the sacrifice involved.

We should, if possible, continue the provisions included in the 1938 conservation program for assistance to farmers of the Great Plains in diverting wheat acres to uses which prevent the soil from blowing.

Any adjustments in wheat acreage beyond the needs of soil conservation should not be construed as an effort to control the world price of wheat. The United States production of wheat is only one-fourth of that of the world, and naturally we cannot hope to control the world price. But, since the price of

wheat in the United States is responsive not only to the world market but to conditions at home as well, it is important to guard against the piling up of supplies so great as to cause a price collapse. Hence, the provision for wheat acreage goals.

The third part of the program would be the creation of an ever-normal granary for at least the hard wheats.—Such a granary would not be needed for the white wheat of the Pacific Northwest, of which there is practically always an exportable surplus, or for the soft red winter wheat, which is always available in plentiful quantities.

But a granary for the hard wheats of the Great Plains would be very useful. The hard red wheats are in demand by the mills of this and foreign countries for mixing with the soft red wheat. But the hard red wheats are raised in areas where the weather is most uncertain and the crop is subject to damage from drought and rust. For this reason the supplies and prices of these wheats fluctuate widely. In years of short crops our customers abroad have had to turn elsewhere.

From every point of view it would seem to be wise national policy, therefore, to plan on having an average carry-over of these wheats perhaps twice as great as the 90-million-bushel carry-over of these wheats that we have averaged over the last 3 years.

One possible way of building up the ever-normal granary for wheat would be through commodity loans, such as those recommended for corn. But a serious drawback to reliance on this method of building up the granary is the fact that any loan above the market price might interfere with the free flow of wheat into export. Furthermore, loans made on one or two kinds of wheat would naturally result in demands for loans on other wheat, and the total effect of wheat loans at high rates might easily be disastrous.

For wheat as for cotton stop-loss loans which would not seriously interfere with exports, but which would prevent utter demoralization of the market, should be available.

Probably a sounder and better way to build up the granary would be through the proposed plan for crop insurance, which may be taken as the fourth part of a wheat program.—Under this plan, farmers taking out the insurance would pay their premiums and collect their indemnities in wheat or its cash equivalent. Whenever a farmer's yield fell below some specified percentage of his normal yield—say 75 percent—he would be paid an amount of wheat or its cash equivalent that would equal the difference between his actual yield and the 75 percent.

Since the wheat representing the total of premiums paid in would be stored, it would be kept off the market in years of good crops and would be made available in the form of indemnities in years when crops were short.

If enough farmers took part to make such a crop-insurance plan work satisfactorily, it would be enormously useful to the wheat farmers themselves. But it would be of great value also to the millers of wheat and their employees and to the consuming public. It would keep a more uniform supply available for export. It would help to level off some of the peaks and valleys in wheat supplies and prices resulting from weather changes from year to year. Like the proposed ever-normal granary for corn, it would help to stabilize the Nation's business.

The fifth part of the wheat plan would be to continue and expand the present program of retiring submarginal land, especially in the Great Plains area.—Lands that nature intended never to be plowed should be taken out of wheat and returned to grass. Families that have been engaged in a bitter struggle to earn a living from such land ought to be, and are being, assisted to find a better opportunity. This program is bound to move slowly, but it will yield big dividends in human values.

The sixth part of the program, the price-adjustment payments, would be needed to offset the effects of price declines which are already felt and to help

wheat farmers share in the progressive rise of the American standard of living.—Where would these funds come from? Over a period of years, neither wheat farmers nor cotton farmers could depend upon subsidies from the General Treasury—subsidies which might be cut off any time Congress failed to appropriate the money. Therefore it would seem that with both cotton and wheat the sensible thing would be to let the commodities themselves bear the load in the form of tariff-equalizing taxes levied at the point of first processing. As under the old A. A. A., these taxes would be levied only on that portion of the commodity consumed in the United States, while the portion of the crop going into export would be sold at the world price.

Any such tax would, of course, have to be surrounded with consumer safeguards. The sum of the market price for wheat plus the tax should not cause any greater portion of the consumer's dollar to be paid out for wheat than was the case before the war. As long as safeguards like this are in force, consumers would have nothing to fear from such a tariff-equalizing tax.

To a consumer what difference does it make whether he buys his bread on the basis of $1 wheat in the market place or on the basis of 80 cents a bushel plus 20 cents tax? Attention should be directed here to the fact that, with wheat at $1 a bushel, the cost of the amount of wheat needed for a pound loaf of bread is less than 2 cents. A 20-cent tax means only a third of a cent on the consumer's loaf of bread. And yet, to the wheat grower, receiving a corresponding amount may make the difference between bankruptcy and at least a minimum chance to make a living. Which would the consumer choose—to pay a third of a cent more on a loaf of bread and a few cents more on shirts and sheets, or to run the risk of the loss of employment and property values that eventually might result again from unstable farm income and equally unstable farm purchasing power?

Price-adjustment payments for wheat might well be made on an allotted production goal and should be conditioned upon participation in the conservation program.

If payments were large enough, the incentive for cooperation in the program would be very strong. Marketing quotas for wheat probably would not be necessary unless through a series of years of good weather, supplies piled up to an unmanageable level. But in such an emergency the use of quotas might prove very useful.

This six-part plan for wheat, if carried into effect, would not guarantee the wheat growers of the Nation a rosy future.—But at least it would help them make an orderly retreat to an acreage in line with the needs of available markets.

Lacking such a plan and with a series of years of ordinary weather the wheat industry faces the possibility of a disorderly retreat through the harsh application of "natural economic law." This would mean that thousands of farmers would have to be starved off their farms. It would mean hundreds of ruined farming communities. It would mean another cycle of closed country banks, diminished farm buying, and loss of jobs for city workers. The Nation cannot afford to ask the wheat farmers, wheat consumers, and industries dependent on wheat to pay such a price.

The key to the six-part plan outlined would be the tariff-equalizing tax to provide the needed revenue. President Roosevelt has emphasized the need for a balanced budget, and has insisted that any expenditures for the farm program over those provided in the regular budget should be balanced by an equal amount of new tax income. In other words, the farm program should be self-financing so far as possible. Farmers appreciate the necessity of keeping the Nation's money affairs well-ordered.

Millers along with all other businessmen should remember that a long-range farm plan that will keep agriculture on an even keel will help them to stay on an even keel too.

The all-weather wheat program here proposed is designed above everything else to serve the interests of wheat producers and wheat consumers. The ups and downs of wheat lie very close to current problems which are giving the whole Nation concern. How can the people hope to make a successful attack upon the business cycle unless they have a chance to iron out the extreme swings in prices of basic farm commodities?

If farm prices and farm income can be stabilized we will have gone a long way toward giving the Nation the economic balance wheel that it so greatly needs.

From the standpoint of the vital interests of the consumer, the wheat program must not be considered by itself. It should be considered along with the ever-normal-granary plan to build up storage reserves of corn, and sound plans for the cotton growers, dairy and livestock producers, and other farmers. These plans are interdependent and the success of any one will contribute to the success of the others. An essential purpose of these plans must be to iron out extreme fluctuations in farm price and in farm income. If that end can be achieved, it will have benefits for the consumer which will far offset any disadvantages. It will launch an attack on the cycles of boom and collapse that again and again threaten our civilization. It will help make our American system work.

But there are those who want no attempt like this made. Every farmer knows that a few powerful financial interests are and always have been opposed to any real farm program. They want to go back to the do-nothing farm policy of the twenties.

Farmers and those who would serve the farmers' welfare should go ahead and work out plans that are, first of all, equitable and sound. In the long run, public opinion will prevail and it will support good laws.

From the standpoint of the farmer, the battle that is now opening is really the old battle of "equality for agriculture." No one knows how long it will last but if farmers cannot win back to "Equal Justice Under Law," then the future of our Nation is indeed dark.

This is the real issue: Is agriculture to have a fair chance, or is it to become once more the Nation's forgotten industry?—Temporarily, perhaps, the Nation can get along, with farmers like serfs or peons supplying cheap food and cheap fiber for cheaply paid labor in the cities. But such a policy never has led, and in the end never will lead, to anything except disaster.

There is only one way for farmers to win equality, and that is to keep an unbroken front in the fight.

From the standpoint of both consumer and farmer, the stake in this fight neither begins nor ends with the farm. All of society stands to lose if the farm program fails, and to gain if it succeeds. The grain gambler alone profits when wheat prices soar and crash, and then soar and crash again. No one profits when the wheat farmers and consumers are made the victims of scarcity due to drought. No one profits when a tremendous surplus wrecks wheat prices. It is true that shocks like these fall upon the farmer first. But ultimately they hurt everyone. The housewife wants a steady supply of food at fair prices. The businessman, the manufacturer, the city worker depend on farm buying power for trade, for customers, for employment. Their interests and the farmers' interests are really one. The farmer must never forget his duty to the consumer, just as the consumer must always remember his debt to the farmer. The life of our democracy depends upon the unity of the groups in service of the general welfare. That unity and that service must be the foundation for the farm program of the future.

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